CAPRICORN DISTRICT MUNICIPALITY



VIREMENT POLICY

Notwithstanding the review date as shown, this policy shall remain effective until approved otherwise by Council and may be reviewed on an earlier date as deemed necessary.

Date: ______________________________

Printed name: ______________________________

Signature: ______________________________

Contents

1. Definitions

1.1. **"Accounting officer"** The municipal manager of a municipality is the accounting officer of the municipality in terms of section 60 of the MFMA;

1.2. **"Approved budget"** means an annual budget approved by a municipal council;

1.3. **"Budget-related policy"** means a policy of a municipality affecting or affected by the annual budget of the municipality;

1.4. **"Capital Budget"** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods;

1.5. **"Chief financial officer"** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 81 of the MFMA be delegated by the accounting officer to the chief financial officer;

1.6. **"Council"** means the council of a municipality referred to in section 18 of the Municipal Structures Act;

1.7. **"Financial year"** means a 12-month year ending 30 June;

1.8. **"Line Item"** an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures **[See appendix "B" for current item structure];**

1.9. **"Municipal budget and reporting regulation"** its main aim is to secure sound and sustainable management of the budgeting & reporting practices of municipalities;

1.10. **"Operating Budget"** it is financial plan which outlines proposed expenditures for the financial year and estimates of revenues that finance them;

1.11. **"Service delivery and budget implementation plan"** means a detailed plan approved by the Mayor of a municipality in terms of section 53(1) (c) (ii) of the MFMA, for implementing the municipality's delivery of municipal services and its annual budget;

1.12. **"Virement"** is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Manager. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes;

1.13. **‘‘Vote’’** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned**. [See appendix “A” for current Vote structure];**

1.14. ‘‘Vote holder’’ means any manager with authorised financial delegations.

2. List of abbreviations

AO – Accounting Officer

CDM – Capricorn District Municipality

CFO – Chief Financial Officer

IDP – Integrated Development Plan

MFMA – Municipal Finance Management Act No. 56 of 2003

SDBIP - Service delivery and budget implementation plan

MBRR – Municipal budget and reporting regulations

3. Preamble

The MFMA and the Municipal Budget and Reporting Regulations (MBRR) seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. CDM undertakes to establish a consistent and efficient virement process to ensure efficient financial management and also service delivery to the people.

4. Purpose

The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. The policy must enhance the process of sustainable service delivery.

5. Objectives

To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

6. Legislative Framework

CDM shall manage its budgetary controls cautiously and conduct its virement policy in compliance with the provisions of the MFMA Act No. 56 of 2003. The virement policy is established in terms of the MFMA Circular No.51 of the Municipal Budget Circular for 2010/11 MTREF of 19 February 2010. The following pieces of legislation further inform the backbone of the policy:

6.1. Municipal Finance Management Act, Act 56 of 2003
6.2. Local Government: Municipal Structures Act, Act 58 of 1999
6.3. MFMA Circular No.13 - Service Delivery and Budget Implementation Plan
6.4. MFMA Circular No.51 – Municipal Budget Circular for 2010/11 MTREF (19/02/10)

7. Virement Clarification

Virement is the process of transferring budgeted funds from one line item to another, with the approval of the relevant Manager, CFO and AO, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (MFMA Section 28(2)(c)). Virement is a measure of flexibility that allows budget-holding managers to reflect budget variances within a year.

8. Virement Procedure

8.1. All virement requests must be completed on the appropriate documentation (i.e. the virement template) and forwarded to the relevant Budget Officer for checking and implementation.
8.2. All virements must be signed by the Vote holder (per department) and the CFO.
8.3. The virement must be approved by the Accounting Officer.
8.4. A virement form must be completed for all Budget Transfers.
8.5. A virement must include changes to the SDBIP.
8.6. All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA).
8.7. Management of the municipality must report to council for noting on a quarterly basis on virements within 5% that have taken place during that quarter.

9. Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year in order that potential overspendings within individual departments are identified at the earliest possible opportunity, (Section 100 MFMA).The CFO has statutory duty to ensure that adequate policies and procedures are in place to ensure effective financial control system. The budget virement process is one of these controls.

It is the responsibility of each manager or head of department or activity to which funds are allocated in terms of the section 78 of the MFMA, to exercise financial management by planning and conducting assigned operations so as not to spend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure sec 102 of the MFMA. A virement must not be an excuse for not planning properly.

10. Virement Restrictions

10.1. Virements is not permitted in relation to the revenue side of the budget;
10.2. No virements allowed between votes where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
10.3. Virements not permitted from the capital budget to the operating budget;
10.4. Virements towards personnel expenditure will not be permitted;
10.5. Virements to or from the following items will not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants, revenue foregone, insurance and VAT;
10.6. Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework will not be allowed;
10.7. No budget may be moved to or from a vote or sub-vote, that will exceed 5% of that vote or sub-vote
10.8. Any virement in excess of 5% should be approved by council.
10.9. A virement may not create new policy, significantly vary current policy, or alter the approved outcomes/outputs as approved in the IDP for the current or subsequent years. (Section 19 and 21 MFMA);
10.10. Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval (MFMA Circular 13 page 3 paragraph 3);
10.11. No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Mayoral Committee;
10.11.1. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles, photo copier's or fax machines;

10.12. No virement may be made where it would result in over expenditure (MFMA Section 32);
10.13. No virement shall add to the establishment of the Municipality without the approval of Municipal Manager;
10.14. If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply;
10.15. Budget to and from different votes or units is allowed;

10.16. Virements in capital budget will be permitted provided that it does not create a new capital project that is not in line with the approved IDP/SDBIP and does not exceed 5% as per 10.8;
10.17. No virements are permitted in the first three (3) months of the financial year;
10.18. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets (MFMA Section 30);
10.19. An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the supply chain management policy of Council as periodically reviewed;
10.20. Virements may not be made between Expenditure and Income.

11. Implementation & Monitoring

The implementation of this policy will be done by all relevant officials within CDM and monitoring will be done by Budget & Treasury Office.

12. Sources

Municipal Finance Management Act No. 56 Of 2003

MFMA Circular No.13 - Service Delivery and Budget Implementation Plan

MFMA Circular No.51 – Municipal Budget Circular for 2010/11 MTREF (19/02/10)

Appendix A

Strategic management and institutional development	Office of the Executive mayor	C-000001	***MANAGER RESPONSIBLE FOR THE SECTION & SENIOR MANAGER (EM)***
	Office of the Chief Whip	C-000002	
	Council Support	C-000008	
	Special focus	C-000075	
	Municipal Manager	C-000003	
	Communications	C-000004	
	Internal Audit	C-000005	
	Risk Unit	C-000007	
	Intergovernmental relations	C-000079	
	Strategic management and institutional development	C-000062	
Infrastructure	Infrastructure manager	C-000010	***MANAGER RESPONSIBLE FOR THE SECTION & SENIOR MANAGER (EM)***
	Water planning & design	C-000011	
	Water O&M	C-000012	
	Water Quality	C-000013	
	Water implementation	C-000014	
Corporate Services	Corporate Services Manager	C-000030	***MANAGER RESPONSIBLE FOR THE SECTION & SENIOR MANAGER (EM)***
	Information & Knowledge Management	C-000031	
	Human Resources	C-000032	
	Administration & Logistics	C-000033	
	Legal & Contracts	C-000063	
Finance	CFO's Office	C-000040	***MANAGER RESPONSIBLE FOR THE SECTION & SENIOR MANAGER (EM)***
	Budget & Treasury Office	C-000041	
	Expenditure	C-000044	
	Supply Chain Management	C-000046	
	Income	C-000047	
Development, Planning & Environmental Management Services	DPEMS Manager	C-000060	***MANAGER RESPONSIBLE FOR THE SECTION & SENIOR MANAGER (EM)***
	Integrated Development Plan	C-000061	
	Town & Regional Planning	C-000065	
	Local Economic Development	C-000028	
	Transport	C-000029	
	Environmental Management	C-000073	
Community Services	Community Services Manager	C-000070	***MANAGER RESPONSIBLE FOR THE SECTION & SENIOR MANAGER (EM)***
	Fire & Rescue	C-000071	
	Disaster Management	C-000072	
	Environmental Health	C-000074	